

FARM MANAGEMENT COUNSELING GUIDE
FOR STAFF WORKING IN ADULT FARM MANAGEMENT EDUCATION

By

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"Some Suggestions When Counseling Farmers in Business Management"

In this area of the Extension program we need the confidence of the farmer more than ever as a basis for successful educational progress. We need his confidence, and we need to keep his records and the plans we develop with him very confidential.

- I. How do we interest the farmer in spending more time in the management end of his business, and how do we convey to him that we can help him in this area?
 - A. We need to be more knowledgeable and enthusiastic, as an Extension worker, about the importance of this part of his farm business.
 - B. We need to stress the importance of farm business management in our mass media communications, and to talk it up at every opportunity when counseling with farmers individually on other problems.
 - C. We need to work very intensively with three to five farmers each year, helping them establish complete inventories and business records. Doing this is not an end in itself, but it will help us to stay abreast of the current pressures on the farm business, thus helping us to do a better job with an over-all farm management program within our counties. The objective is to help a few farmers intensively; so we are better qualified to help many others extensively.
- II. What would be a procedure to follow with a farmer who requests help with his income problem. A typical question may be "My profit was very low last year, what can you tell me that might improve my income for next year?" First of all, there is no quick prescription answer to a question like this.

How you approach each case depends on how well you know the situation and the people involved. The following procedure could be followed regardless of your acquaintance:

1. Try to obtain a general view by asking for the cropping program--acres in each crop--yields--any drainage or weed problems, etc. Take a piece of paper and jot down his answers briefly so you can begin to see the picture.
2. Obtain his livestock program--number of head--performance.

3. Family labor available--hired labor being used at present.
4. His attitude and his wife and family's attitude toward farming--get an idea of their long time plans, etc.
5. Health of family and any other factors that might influence productivity--parents--grandparents--in-laws.
6. At about this point you have shown enough interest and gathered enough information in general, but you need more detail data on what happened in the business last year. So here is the time to ask for last year's farm records. One good way to do this is to say, "Would it be possible to see your last year's records including your 1040F or tax record?"
 - a. You can make a couple quick observations from his tax records that can help many of them, (1) check if they have reported their raised brood animal sales on Schedule D. If not, they have paid too much taxes. They should separate out all brood animal sales from market animal sales and report brood animal sales on Schedule D where you are only taxed on one-half the value, (2) check if they have taken advantage of the investment credit on any machinery or other qualifying item purchased since January, 1963--if not, they can file up an amended return form and recover tax paid up to the qualifying amount of investment credit. Of course, they must have paid taxes to qualify for refund.
 - b. Some of the main items you want to note from their records are:
 - 1) Gross sales--here is a good time to talk about what happened to the changes in the inventories--you can't eat changes in inventories, but it is very important in determining what happened. A RUNNER NEVER KNOWS HOW FAR HE RAN UNLESS HE KNOWS EXACTLY WHERE HE STARTED AND EXACTLY WHERE HE FINISHED--INVENTORIES SERVE THIS PURPOSE.
 - 2) Add gross sales plus change in value of inventories--if this total is not more than \$13,000 he will either want to increase his volume or look for outside employment to supplement his farm income. This danger point will depend on his total expenses, but his gross assumes his expenses are at the minimum.
 - 3) Check his total cash expenses plus his depreciation expenses.
 - 4) Subtract his cash expenses from his cash income and the difference is the amount of money he could use to live on this particular year, but he needs to add his change in inventories to his cash income and add his depreciation plus interest on his own investment to his cash expenses and this difference is his true family and labor income.

5) High overhead costs are one of the main problems causing low farm income today. An important efficiency factor to work out is to find what per cent of his gross income is absorbed by overhead costs; namely, depreciation-interest including interest on his own investment-repairs-rent-taxes-insurance. You can find all these costs on his 1040F with exception of interest on his own investment and this can be estimated pretty quick by taking 4% of his equity in the business. If he is an owner-operator the per cent of his gross in overhead expenses should range between 30-40%; if he is a tenant this range will be in the neighborhood of 15-20%. If the percentages are higher than these stated he either needs to intensify the use of his machinery, equipment, etc. by getting hold of more acres to farm or be more selective when buying--use land and other resources more intensively.

6) Check out what would his income be if he sold all crops--see what his gross crop income is per rotation acre if he sold the crops at market value. His gross should vary from \$75 to \$100 per acre depending on his soil potential. This will give you an idea how he is doing with his crops.

7) Add the value of purchased feed to the value of home grown feed and divide this into the cash income from sale of livestock plus the change in inventory value of livestock. This gives you the return per \$1.00 value of feed fed. You get the value of home grown feed fed by taking your total production of this year plus beginning inventory of grain minus any sales minus value of closing inventory of feed grain. This will show you how much he is stretching the value of \$1.00 worth of feed by feeding it through livestock.

8) His labor productivity is a very important factor to analyze. This can be done easily by following the labor analysis sheet in the farm account book.

III. Economic and human factors that must be considered by the farmer for success in the future.

- A. What are the impacts of the economic climate on a farmer's managerial abilities?
 - 1. Continued narrow profit margins.
 - 2. Need for farmer to keep up to date on outlook and new technology.
 - 3. More purchased inputs. When family labor and land were the principal inputs in farming, the manager's chief problems were selecting enterprises and practices that would provide the best return to these resources. But the rapid increase in the

availability of non-farm inputs greatly widens the farmer's decision-making job. New discoveries increase the number of kinds of inputs or techniques the manager must consider.

The use of credit can be an important key to success. Many of these decisions concerning what non-farm inputs to use and how much are interdependent and need to be made jointly. The problem of fitting the old technologies and equipment together into a system takes a lot of planning.

During the next 15 years farm labor will continue to be more competitive and not only will minimum wage laws affect the farmer but minimum housing as well. Selection and training of farm workers will become more important. Incentive programs will be very common.

- B. Size of business and managerial requirements. As the size, of business increases the importance of problem recognition, information gathering, analysis, and the use of judgement becomes more critical. The following managerial functions become increasingly important:
1. Record keeping and analysis-- more complete and accurate records as a basis for sound decisions.
 2. Capital acquisition and financial management-- the important area may not be to plan for ownership of resources, but plan for gain of control of the inputs needed. Many farms will need to use large amounts of borrowed funds. Timing of borrowing and repaying will be important.
 3. Buying and selling-- with narrow margins more time spent on gathering information on prices and qualities of inputs and on outlets to gain the greatest advantage possible will have significant pay off.
 4. Ability to work with people-- the success of the farm operation will depend partly upon the manager's ability to carry on successful relations on a continuing basis with employees, suppliers, buyers, and others. The skill that a manager or farmer must develop who has one or more employees is that of authority. We don't mean he had to be an autocratic boss but a farmer being independent and not liking to be told what to do themselves, hesitates to tell others what to do. Being a good manager includes the ability to delegate authority and responsibility and providing an organization and atmosphere that permits all individuals involved to grow and develop their capabilities. It is important that all concerned feel they are a part of a joint effort and that there is some type of reward for a job well done.

5. Following more closely the management processes.

- Clearly formulating goals, both long time and short run. Changes in circumstances calls for prompt adjustment in goals, but a manager must keep in mind the conflict that may exist between employees and management goals.
- In the competitive period ahead, managers who recognize problems and opportunities earliest, and who can define problems in clear terms so they can be solved will have an advantage over other managers.